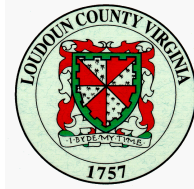


# Quarterly Economic Review

*A Comparison of Selected National, Regional,  
and Local Economic Indicators*  
Loudoun County Department of Economic Development



Volume 4, Issue 3

Third Quarter 2006

## Signs of Age

Since 1945, there have been ten economic expansions in the U.S., and on average, those expansions have lasted 57 months. In September 2006, the current U.S. economic expansion will enter its 58<sup>th</sup> month. The intention of highlighting that fact is not to imply that the current expansion is due to end; in fact the last expansion endured for a record breaking 120 months. But this realization does demonstrate that the current expansion is maturing, and with that maturity come some familiar signs of age.

Perhaps most notable among them is a steady increase in inflation. Historically, prices have increased at a greater rate later in an expansion than earlier in an expansion. Specifically, since 1945, prices have increased at an annual average rate of 3.7 percent in the first half of an expansion versus 4.4 percent in the second half of an expansion. Through the first half of 2006, prices have risen substantially and are on pace to increase by 4.7 percent for the year, a figure which would easily surpass that observed in each of the past 6 years. Similarly, historic employment growth has typically been more robust in the first half of an expansion than in the second half. Recent data demonstrate that employment growth in 2006 has been healthy, but has fallen behind the pace observed in both 2004 and 2005. These indicators alone are not harbingers of an imminent economic slowdown, but they do suggest that the current U.S. expansion, if it behaves as those have in the past, may be tiring.

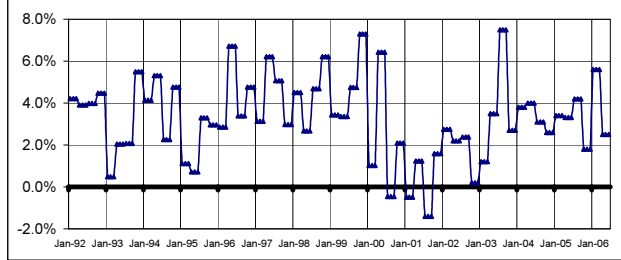
At the regional level, the economy continues to expand. However, there is also evidence that the region's economy may be switching to a lower gear. For example, the unemployment rate recently increased from 2.9 percent in May to 3.3 percent in June. Although that rate is still low by any standard, the increase is the first in six months and the largest in two and a half years. In addition, growth in federal spending appears to be slowing. Because of the region's strong federal government dependency (about a third of the region's economy is driven by federal spending) a slowdown in the region's share of those funds could significantly dampen economic growth. Finally, residential building activity, one of several key drivers in the region's recent growth, has slowed dramatically. The region's economy has been among the nation's healthiest for several years. However, risks associated with a potentially slowing U.S. economy, diminished federal spending, and a cooling construction industry are cause for a moderation in future growth expectations for the region.

Loudoun County continues to be one of the nation's strongest local economies. Loudoun added 6,100 jobs in 2005, a 5.3 percent increase that exceeded all but 48 of the nation's largest 320 counties. Unemployment, which was reported at 1.9 percent in June, qualifies Loudoun County as one of only four counties in the U.S. with an unemployment rate below 2 percent. Despite these favorable indicators, Loudoun has its areas of concern. Among them may be a slowdown in commercial and residential development. Already, the number of building permits issued in Loudoun County is well below recent norms. Like the region, Loudoun's residential permitting activity is on a pace to be the slowest in ten years. Coincidentally, commercial vacancy rates have now increased for two quarters. These trends suggest that the construction industry's contribution to local economic growth, responsible for 15 percent of that growth since 2001, may wane. Fortunately, Loudoun's diverse economy is well positioned to continue expanding in the face of an aging and potentially slowing U.S. economic expansion, but expectations of increases in Loudoun's meteoric rate of growth in that environment are probably unrealistic.

## National Economic Indicators

### Gross Domestic Product

This variable measures the annualized percent change in Gross Domestic Product (GDP). GDP is the broadest measure of economic activity and reflects the growth rate of total economic output in the U.S., including goods and services. Source: BEA.

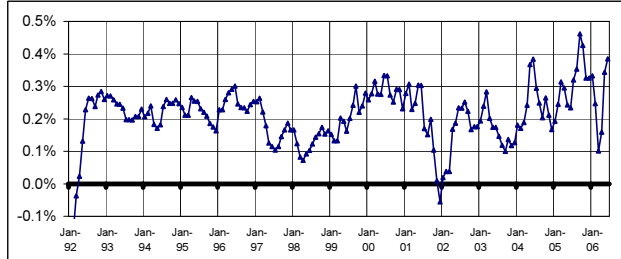


Recent Trend: **INCREASING**

Total U.S. output growth slowed considerably in the second quarter, occurring in every major category including consumption, investment, net exports, and government spending. Though still positive, growth in consumption was well below its historic average. A slump in consumption could hamper future growth as that component comprises 70% of economic activity.

### Consumer Price Index

This variable measures the six month moving average percent change in the Consumer Price Index (CPI) for the U.S. The CPI measures the price level of a fixed market basket of goods and services and is the most widely cited inflation indicator. Source: BLS.

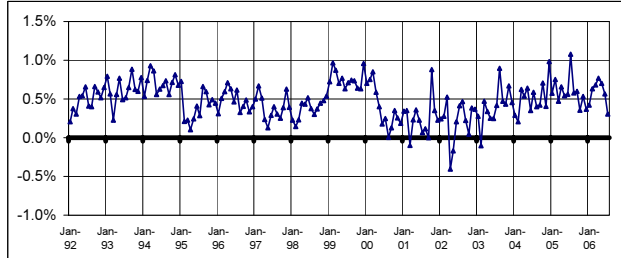


Recent Trend: **INCREASING**

After a brief pause, inflationary pressure returned in the second quarter of 2006. Price growth exceeded the 15-year average for each of the four months ending in June. Prices are on pace to increase by 4.7% in 2006, a figure which is higher than the annual total for any of the past 6 years. Recent price growth was led by increases in energy, transportation, and medical costs.

### Retail Sales

This variable measures the six month moving average percent change in U.S. retail sales, a timely indicator of broad consumer spending patterns. Data are adjusted for seasonal, holiday, and trading day differences, but not for price changes. Source: Census Bureau.



Recent Trend: **INCREASING**

Retail sales rebounded sharply in July, increasing by 1.4%. Growth was strongest in autos, electronics, building supplies and gasoline. Despite July's strong showing, retail sales growth slowed in the second quarter, growing only modestly in May and declining in June. July's strength is encouraging, particularly given recent weakness in consumer sentiment.

### Unemployment Duration

This variable measures the average length of time, in weeks, that unemployed persons have sought work in the U.S. This variable is sometimes argued to be a better indicator of the labor market than the unemployment rate. Source: BLS.

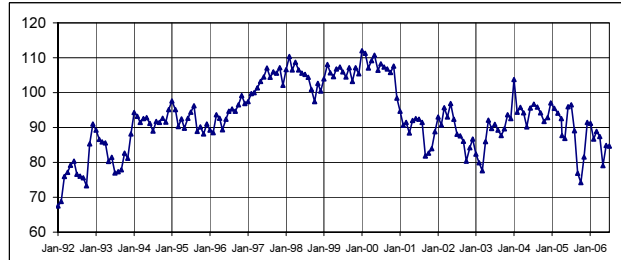


Recent Trend: **UNCLEAR**

The average unemployment duration increased to 17.1 weeks in July 2006. That measure has recently flattened, ending a two-and-a-half year downward trend. A reversal of this trend may rattle consumer sentiment as workers become less secure about their job prospects. The current unemployment duration remains higher than the 50-year average of 13.4 weeks.

### Consumer Sentiment

This variable measures both consumers' appraisal of current economic conditions and their expectations. The index is helpful in predicting sudden shifts in consumer patterns. Consumption is 66% of the U.S. economy. Source: University of Michigan. (1985=100).

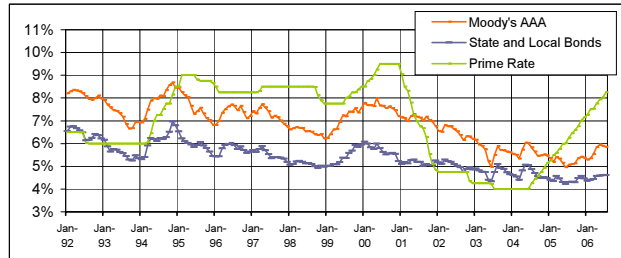


Recent Trend: **UNCLEAR**

Consumer sentiment recovered from a sharp May decline and hovered near 85 in June and July. Despite the recent advance, consumer sentiment has trended downward for about a year and has declined for five of the last seven months. That slide has been driven by persistently higher energy prices, a cooling housing market, and concerns about increasing geopolitical unrest.

### Interest Rates

These variables measure rates of interest in money and capital markets. They are defined as follows: Moody's AAA - Private, all industries AAA Rating; State and Local Bonds - 20 bond index; Prime Rate - bank prime loan rate. Source: Federal Reserve.



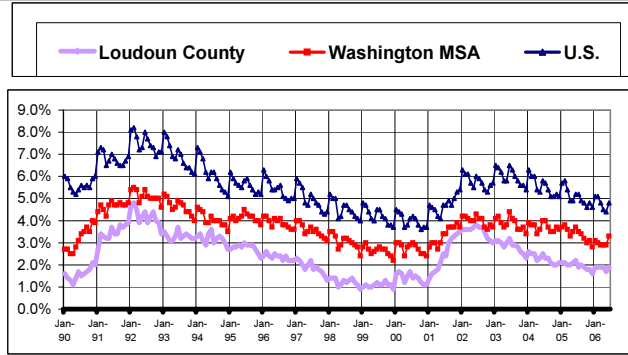
Recent Trend: **INCREASING**

Aside from a modest pullback in the AAA rate, interest rates have steadily increased throughout 2006. In some cases those rates are nearing 2-year highs. Interest rates are rising in part due to the Federal Reserve's policy of steadily increasing the Federal Funds rate. Higher rates may impact consumption as credit card payments, mortgages and other costs will rise.

## Regional and Local Indicators

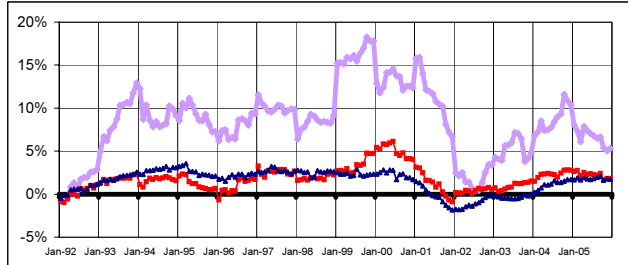
### Unemployment Rate

This variable is defined as the number of unemployed divided by the labor force by place of residence. Data are not seasonally adjusted and are subject to criticism at local levels, particularly in rapidly growing localities. Source: BLS Employment Report.



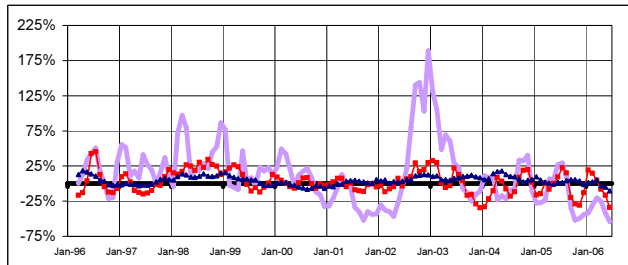
### Total Employment

This variable measures the annual percent change in total covered employment on a place of work basis. This indicator is considered the most timely and broad monthly indicator of economic activity. Source: BLS Employment Report.



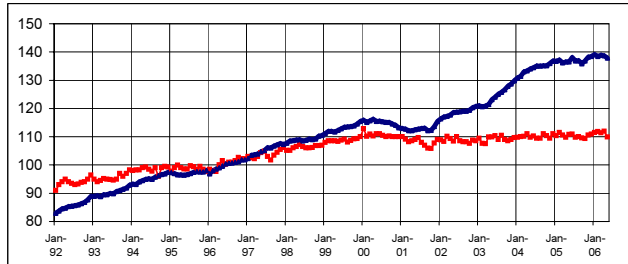
### Residential Bldg. Permits

This variable measures the year over year percent change in the three month moving average of residential building permits. These data can be volatile at the county level. Source: Census Bureau and Loudoun County Department of Economic Development.



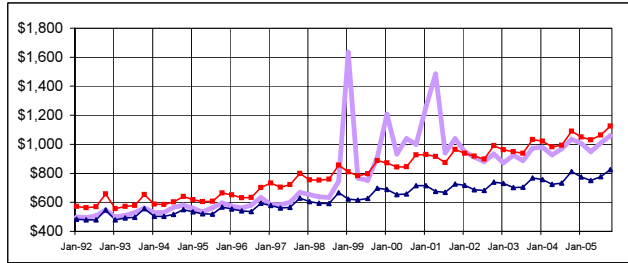
### Leading Indicators

Although these indices differ in composition, both forecast economic performance in the short term (about 6 to 12 months). The Conference Board produces the U.S. Leading Indicator and GMU's Center for Regional Analysis produces the Washington Leading Index.



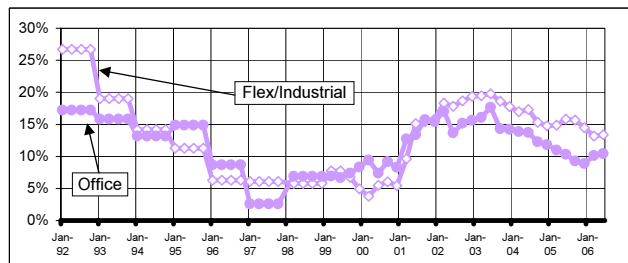
### Average Weekly Wages

This variable measures the average weekly wages in all industries for all employees covered by unemployment insurance. These data are not adjusted for inflation. Peaks are likely associated with bonuses. Source: Virginia Employment Commission and BLS.



### Loudoun's Vacancy Rates

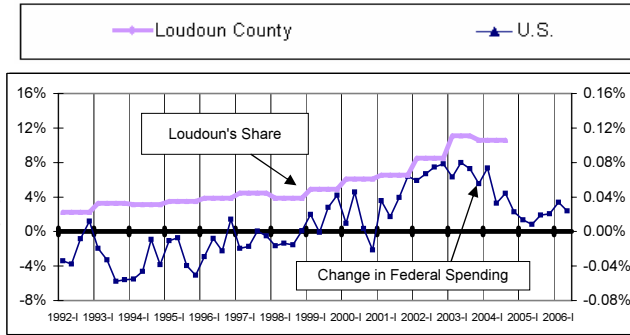
These variables measure the share of office and industrial space that is vacant in Loudoun County, excluding sublet space. It is a good indicator as to the health of the non-residential real estate market. Comparable figures are not available. Source: Costar.



## Government Finance

### Federal Spending

These variables measure the percent change in total U.S. federal consumption and investment spending (left axis) and Loudoun County's share of that spending as a percent of the nation (right axis). Data are adjusted for seasonality and inflation. Source: BEA and Census Bureau.

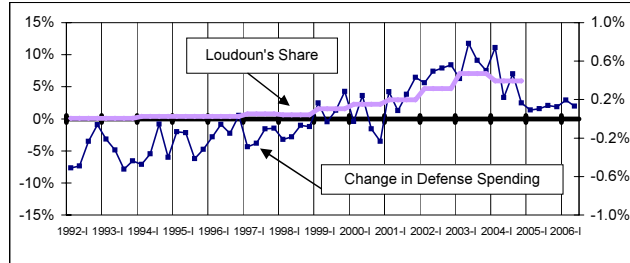


Recent Trend: **INCREASING**

Total federal spending in the second quarter of 2006 was 2.4% higher than the same period in the previous year. Although still positive, growth in these expenditures has slowed significantly. A continued deceleration in those funds would be concerning as Loudoun has 2,300 federal workers within its borders and obtains an estimated 9% of its wages from federal sources.

### Federal Defense Spending

These variables measure the percent change in total U.S. federal consumption and investment spending on National Defense (left axis) and Loudoun County's share of that spending (right axis). Data are adjusted for seasonality and inflation. Source: BEA and Census Bureau.

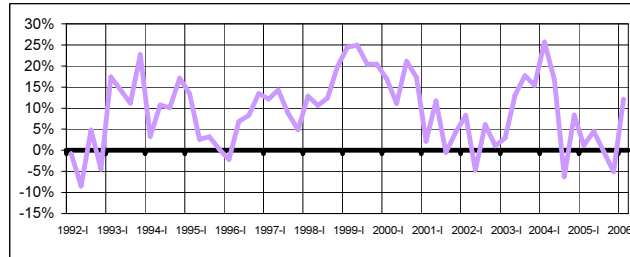


Recent Trend: **INCREASING**

Total federal defense spending increased by a modest 2% in the second quarter of 2006. Growth in these expenditures has slowed substantially for over a year. Loudoun receives about 0.4% of all federal defense spending, however, Loudoun's share has recently declined. Continued growth in federal spending is beneficial to Loudoun as it fuels high wage jobs.

### Taxable Retail Sales

This variable measures the year over year percent change in total taxable retail sales collected in Loudoun County and allows insight into trends in local option sales tax revenue. Data are adjusted for inflation. Source: Virginia Department of Taxation.

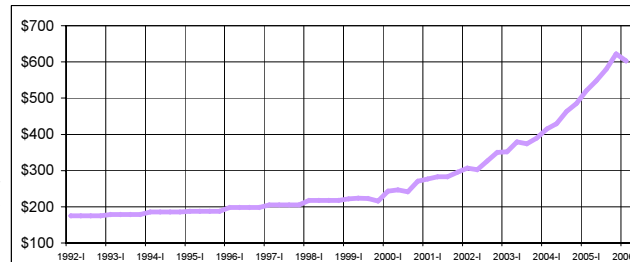


Recent Trend: **INCREASING**

Loudoun's retail sales jumped in the first quarter as compared to the same period in the previous year. Loudoun's retail sales growth outpaced all but 21 of Virginia's jurisdictions in that period. Loudoun's retail sales, which are rapidly approaching \$1 billion per quarter, have nearly eclipsed those of Prince William County and are about a third of those in Fairfax County.

### Average Housing Sales Price

This variable measures the average sales price for all housing units sold in Loudoun County in thousands of dollars and may offer insight into trends in property tax revenue. Data are not adjusted for inflation or product mix, age, or size. Source: Loudoun County Dept. of Financial Svcs.



Recent Trend: **DECREASING**

The average price of homes sold in Loudoun in the first quarter of 2006 was \$603,000, a 12% drop from the previous quarter. That decline was the first in 3 years and the largest in 5 years. Regional and national prices increased by 22% and 13% in the period, respectively. These declines may indicate that a cooling in the housing market may be more pronounced locally.

## Summary

	Trend		Number of Indicators
Gross Domestic Product	INCREASING		
Consumer Price Index	INCREASING		
Retail Sales	INCREASING		
Unemployment Duration	UNCLEAR		
Consumer Sentiment	UNCLEAR		
Interest Rates	INCREASING		
Unemployment Rate	UNCLEAR	Favorable	7
Total Employment	INCREASING	Unclear	5
Residential Bldg. Permits	DECREASING	Unfavorable	4
Leading Indicators	UNCLEAR		
Average Weekly Wages	INCREASING		
Loudoun's Vacancy Rates	UNCLEAR		
Federal Spending	INCREASING		
Federal Defense Spending	INCREASING		
Taxable Retail Sales	INCREASING		
Average Housing Sales Price	DECREASING		

Current Distribution of Indicators

